

Important Update from the CIPFA/LASAAC Local Authority Accounting Code Board on the Measurement of the Highways Network Asset

At its meeting on 9 November, the CIPFA/LASAAC Local Authority Accounting Code Boardⁱ (CIPFA/LASAAC) decided to postponeⁱⁱ the full implementation of the move to measuring the Highways Network Asset at Depreciated Replacement Cost in local authority financial statements.

It will issue an Update to the 2016/17 *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) to confirm this decision once it has completed the full due process.

CIPFA's *Code of Practice on the Highways Network Asset*ⁱⁱⁱ (Highways Code) was developed to promote effective asset management and use the same information for financial reporting of the Highways Network Asset within local authorities. For a number of years local authorities have been developing detailed inventory data on their network assets and beginning to use this data to develop the underlying valuation of the asset with a view to full implementation of the new measurement requirements in the 2016/17 financial statements, using centrally provided models and Gross Replacement Cost (GRC) rates. It is estimated that full implementation will result in a revaluation increase of approximately £1trillion to the UK public sector balance sheet in respect of local authority Highways Network Assets.

CIPFA/LASAAC recognises the commitment and work of local authorities in preparing for implementation as well as the engagement of local auditors in the project and is grateful for the level of feedback and input this has given. The latest feedback on preparedness provides a strong level of confidence in the amount of work local authorities have done on improving highways inventory data. As implementation progresses some detailed issues have emerged but CIPFA/LASAAC remains confident that these can be successfully resolved and many were addressed in the update to the Highways Code published in the Summer.

A key, final, part of implementation is the provision of central GRC rates. The current rates were originally developed at the start of the project and are now over five years old. For the last eighteen months CIPFA has been working with the relevant stakeholders, including the Department for Transport, to ensure that the review of the central rates for the measurement of the Highways Network Asset would be ready for the 2016/17 implementation date. New rates are critical to implementation given the time frame since the last rates were produced. Unfortunately, despite best efforts, it has become clear that these rates will not be ready in good time for the 2016/17 financial statements.

As a result CIPFA/LASAAC, at its meeting in November 2016, took the decision to defer implementation for the 2016/17 financial year. CIPFA/LASAAC will review this position at its meeting in March 2017 with a view to implementation in 2017/18. In making its decision in March CIPFA/LASAAC will be looking to ensure that central GRC rates and central assurance processes will be delivered in a timely manner to allow successful implementation. CIPFA/LASAAC has decided that the approach to adoption of the new measurement requirements in the 2017/18 Code will be on the same basis as planned for 2016/17, i.e. not requiring restatement of preceding year information.

CIPFA/LASAAC would once again like to thank all those involved for the hard work in getting to this point and will continue to work towards successful implementation whilst being minded of the level of risk involved.

CIPFA/LASAAC

14 November 2016

ⁱ CIPFA/ Local Authority (Scotland) Accounts Advisory Committee (LASAAC) is the Board responsible for the development of the Code of Practice on Local Authority Accounting in the United Kingdom.

ⁱⁱ The decision of CIPFA/LASAAC to postpone the move to the new measurement requirements for the Highways Network Asset and the issue of the Update to the 2016/17 Code will need to follow the normal full due process before publication ie the Update of the 2016/17 Code will be considered the Government's Financial Reporting Advisory Board (FRAB).

ⁱⁱⁱ The Code of Practice on the Highways Network Asset, CIPFA, August 2016.